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SUBMISSION TO THE  
ONTARIO ECONOMIC COUNCIL

BY  
NIAGARA BASIC POWER USERS COMMITTEE

January 1963







NIAGARA BASIC POWER USERS COMMITTEE

P.O. Box 330

NIAGARA FALLS, ONTARIO

Atlas Steels Limited  
The Beaver Wood Fibre Company  
Canadian Carborundum Company Limited  
Cyanamid of Canada Limited  
Union Carbide Canada Limited  
Metals and Carbon Division

The Exolon Company  
Lionite Abrasives Limited  
Norton Company  
Electro-Chemical Division  
The Ontario Paper Company Limited

January 25, 1963

The Chairman and Members  
Ontario Economic Council  
Toronto, Ontario

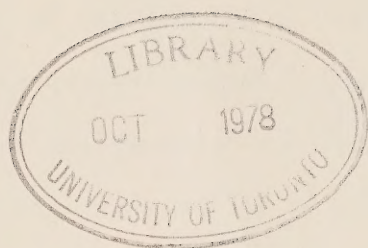
Gentlemen:

Shortly after the formation of the Ontario Economic Council, this Committee submitted to you copies of its brief entitled "Re-statement of the impact of increasing electric power costs" dated February 1962. After consideration of the brief by your members, you referred our case for study by Professor A.W. Currie. Representatives of this Committee met with Professor Currie early in May 1962 and furnished him with complete data concerning our case. Professor Currie submitted his report to you under date of May 15, 1962.

After considering Professor Currie's report, you referred it for study to Ontario Hydro asking for their comments. Ontario Hydro submitted its report to the Economic Council under date of October 1, 1962.

On December 7, 1962, Mr. Gadsby handed our representatives copies of Professor Currie's report and Ontario Hydro's comments thereon. This group was asked to study these documents and to submit its comments on them to the Economic Council.

This document contains our comments on Professor Currie's report and on Ontario Hydro's reply. This organization was pleased to learn also





that an opportunity will be afforded its representatives to meet in person with the Economic Council on February 1, 1963 to discuss this submission and the details of our case.

Professor Currie's report includes some very constructive recommendations which, if acted upon, would go a long way towards alleviating the problem of power costs. These are dealt with in detail in the body of this submission.

On the other hand, Ontario Hydro's reply to Professor Currie's report is restricted to a lengthy discussion of the technicalities of their own position and is not oriented towards the problem of the economic welfare of the major population centres of Ontario nor towards the objectives of the Department of Economics and Development to create new jobs and more exports.

#### RE-STATEMENT OF OUR OBJECTIVES

The prime objective of this Committee is to help reduce operating costs and, therefore, help to ensure the future operation of our plants and the consequent welfare of the Niagara community. We hope to accomplish this by:

1. Reduction in our power rates of the magnitude of 15 per cent from existing rates.
2. Contracts for fixed periods of ten years, with possible adjustment in rates every five years based upon a formula of fluctuating labour and other costs.
3. A change in Hydro's costing principles to permit separate costing of 25 cycle facilities.
4. Guaranteed continuance of 25 cycle power service.
5. A clear statement of government policy on electric power and other sources of energy in the Province.
6. Restored recognition of our regional benefits which have been in existence for over fifty years.

that an opportunity will be afforded the representatives to meet in person with the Economic Council on February 14, 1953 to discuss this situation and the details of our case.

Enclosed herewith is a report from the Economic Council on the situation in the Dominican Republic. It shows that the country is in a very serious economic situation. The report also shows that the country is in a very serious economic situation. The report also shows that the country is in a very serious economic situation.

In the other hand, the report shows that the country is in a very serious economic situation. The report also shows that the country is in a very serious economic situation. The report also shows that the country is in a very serious economic situation.

# RE-STATEMENT OF OUR OBJECTIVES

The prime objective of this Committee is to help reduce the economic and financial situation of the Dominican Republic. It is to help reduce the economic and financial situation of the Dominican Republic. It is to help reduce the economic and financial situation of the Dominican Republic.

1. Reduction in our present rate of the Republic to 12 per cent from existing rates.
2. Reduction in the price of our goods and services to 10 per cent from existing rates.
3. A change in the way we handle our foreign exchange to 10 per cent from existing rates.
4. Reduction in the price of our goods and services to 10 per cent from existing rates.
5. A change in the way we handle our foreign exchange to 10 per cent from existing rates.
6. Reduction in the price of our goods and services to 10 per cent from existing rates.



OUR CONTRIBUTION TO THIS PROBLEM

We should like to point out that the contribution made by this group of companies in helping to solve this problem of power costs has been significant. A number of examples can be quoted where improved efficiency in our plants and other technical developments have made it possible to make more economical use of electric power. It cannot be said that, over the period that we have been in business in the Niagara area, we have allowed time to stand still. Our contribution along these lines has not been insignificant.

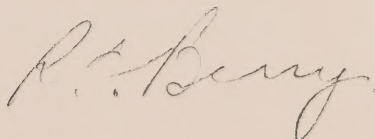
NEED FOR ACTION

We would also like to stress the need for action on our case. We already have the example of the major Atlas Steels expansion having been moved to the Province of Quebec and, undoubtedly, unless conditions change other moves of this nature will take place. The case of Niagara Basic Power Users has now been in process for a period of almost four years and is still being moved around between Hydro, the Cabinet and the Economic Council. Our members believe that the time has been reached when action must be taken. Such action should include a firm and clear declaration of government policy on questions of electric power and energy resources.

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We appreciate the opportunity to present our power problems to you.

Very truly yours,



R.C. Berry, Chairman.





NIAGARA BASIC POWER USERS COMMITTEE

SUBMISSION TO THE ONTARIO ECONOMIC COUNCIL

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I - COMMENTS ON REPORT OF PROFESSOR A.W. CURRIE - MAY 15, 1962SUPPORT FOR POINTS MADE BY PROFESSOR CURRIEDetermination of Cost of Service

Professor Currie points out that it is Hydro's responsibility to provide power service at cost. He further points out that Hydro's interpretation of cost is average unit cost throughout its system anywhere in the Province. It can be strongly argued that a much fairer interpretation of cost is the determination of individual costs for specific service taking into account the capital cost of the facilities involved and the operating costs thereof. This is the practice that has been in almost universal use in rate making for a long time. Particularly for large industrial contracts, it is logical to use the "cost of service method".

Because we felt that the determination of specific costs is a logical approach, we have for some time been requesting that Hydro determine our rates based upon specific costs of the 25 cycle generating and transmission facilities required to serve our companies. It seems to us reasonable to take this approach. The fact that Hydro has refused indicates to us that such a calculation would yield rates substantially lower than those currently being charged to us. In view of our special circumstances, we believe that this suggestion should be subject to further examination and review.

Significance of Rate Reductions

Professor Currie provides a very good analysis of the effect of granting rate reductions to us. He very clearly denies Hydro's claim that a reduction in rates to us would represent a subsidy. Rather, he points out





that Hydro's present policy really represents a subsidy to new users. He refers to this process as "internal cross-subsidization" which is a very good way of expressing this. From the point of view of industrial users who have been in business for over fifty years, we cannot help but feel that in this process of internal cross-subsidization we come out the losers.

#### Uniform Rates Not Justified

Professor Currie's report makes several references to his opinion that uniformity in charges is no longer justified. There are many reasons for this contained in our various briefs and these have been summarized well by Professor Currie. We re-state the more important of these below:

1. Our proximity to power resources.
2. The fact that we are large industrial users and power is a raw material.
3. The fact that we have been in business for about fifty years.
4. The fact that we are an important factor in the economy of the area.

There is evidence that customers at greater distances from power sources are in fact getting lower rates where the load factor is comparable to that of Niagara Basic Power Users. For example, the Hamilton Bay plant of Cyanamid of Canada paid 5.15 mills per kwh for the month of November 1962 for 60 cycle firm power. This compared to firm power rates at Cyanamid's Niagara plant of 5.52 mills for 60 cycle power and 5.15 mills for 25 cycle. At its Hamilton Bay plant, Cyanamid purchases its power from the Hamilton Hydro, a retailer of power. At its Niagara plant, Cyanamid purchases its power from Ontario Hydro, a wholesaler of power. This demonstrates that, because the City of Hamilton wants to attract and encourage industry, it is





willing to make industrial power available at attractive rates. Unfortunately, this does not appear to be the policy or outlook of Ontario Hydro.

#### Cost of Transmission

Professor Currie goes on to conclude that it may be desirable to take into account the costs of transmission. We have always felt very strongly that, in view of our proximity to power resources, it is unfair to include in our rates an average transmission cost. The length of haul involved is taken into account by all public utilities, including other electric power utilities, telephone companies, railways, natural gas utilities, etc. It seems only fair that we should receive recognition for the short distance involved in transmission, as was the case in the past before the present policy was adopted.

Niagara Basic Power Users are charged with the same average costs as all buyers of wholesale power in the Province, whereas the actual cost of energy supplied to Niagara Basic Power Users is considerably lower than this average. Professor Currie was advised by Hydro that cost of transmission is about 15 per cent of the wholesale cost of power to industrial and municipal users. If actual cost of transmission were included in our rates, this would go a long way towards achieving our stated objective of a 15 per cent reduction in rates.

#### Hydro's Promotion of Domestic Use of Electricity

Our members have for some time been at a loss to understand why Hydro is strongly pushing electricity for domestic use, particularly for residential heating. This is particularly hard to understand coming as it does at a time when hydro-electric power is in extremely short supply. This promotional program also comes at a time when very abundant supplies of





natural gas and other fuels are available in the Province for home heating purposes. Because of the fact that new forms of generation of electric power are increasingly costly, the effect on long-established industrial users is that Hydro's promotional program is constantly pushing our power costs up. This is particularly true in view of the adopted policy of uniform rates.

This whole question is a matter of government policy. We believe that the Ontario Economic Council can perform a very worthwhile service by advising the government on a future policy of marshalling the Province's energy resources. Such a determination of policy should take into account all available resources, present and future, and project the use of those resources. In formulating such a policy, due account should be taken of the availability of large quantities of natural gas from Western Canada to be used for space heating purposes in homes, commercial buildings and other establishments. In short, our industries are asking the government to declare itself on the availability of low cost power for basic industrial users, on the basis of which we would be able to make our future plans.

#### The Need for an Independent Regulatory Body

Our group has felt for some time that there is a need for an independent regulatory body, such as a provincial electricity and gas board, to act as an independent check on Hydro and also to provide the machinery for industries and municipalities to appeal the rates charged to them or other matters upon which they might have a grievance. The effect of the existing situation is that Hydro is placed in the position of being prosecuting attorney, judge and jury in any case where a customer raises an objection. In fact, the only appeal available is to the Cabinet and we see in the example of Niagara Basic Power Users what a long drawn out procedure this can be.





Precedent exists in other provinces and at the federal level for the setting up of regulatory tribunals to operate as a check upon the utility providing the service and to see that justice is done from the point of view of all parties. We strongly support the view that Ontario should have some form of electricity regulation.

#### The Gist of Professor Currie's Report

The gist of Professor Currie's report as stated in the underlined portion on page 28, quoted in part as follows:

"that Hydro's policies need to be critically examined to make sure that the interests of the people of the Province as consumers are not placed too far above their interests as producers"

appeals to us strongly. It seems unfortunate that excessive emphasis is placed on the interests of the people as consumers to the point where the position of industries which provide their jobs is threatened. This whole question needs to be carefully watched in considering the subject of power rates in Ontario.

#### CLARIFICATION OF POINTS MADE BY PROFESSOR CURRIE

Certain points raised by Professor Currie in his report require further elaboration or clarification by us in order that all the facts can be put before the Economic Council. We accordingly deal with some points below which, in our opinion, require further explanation.

#### Reference to Strikes in Minimum Bill Clause

On page 4 of his report, Professor Currie might possibly leave the inference that Hydro did grant our request in this respect. We were asking that the strikes against our companies should be included in the list of





causes of "force majeure" which would remove the requirement that a company pay the minimum monthly charge stipulated in the contract even though it used very little power as the result of a strike. Hydro was so adamant in insisting that it could do nothing to grant this request that, in view of all the circumstances, we withdrew it. We mention it at this time in order to make it clear that this request was not granted and, from our point of view, we would like to see it granted for our protection. Such a provision in industrial power contracts is not uncommon.

#### Effect of Interruptible Power Concessions

On page 5 of his report, Professor Currie reaches the conclusion that "the new class of interruptible power is a concession on paper but not in practice". The real effect of the new class of interruptible power is difficult to assess until a period of several years of experience has elapsed. The value or otherwise of the lower interruptible power rates depends entirely upon the extent to which Hydro chooses to interrupt within the limits of the contract. If Hydro were to interrupt service to the full extent permitted under the interruptible "B" clause, then this would not be a useful form of power to our members. The real question mark looms in the future when Hydro's resources will be more and more hard pressed. To sum it up, this was not a major concession but one which is helping us to some extent, at least for the present, depending upon the amount of interruptions.

#### Conversion to 60 Cycle Power

On page 8 of his report, Professor Currie suggests the possibility that our service will be converted to 60 cycle about 1972 when Hydro's 25 cycle plant will have been fully amortized. Our companies are very surprised at this suggestion. This is the first time there has been a suggestion from





any source that plans exist to convert our facilities to 60 cycle. Our members have considered this possibility and it is fair to state that at such time as our existing 25 cycle is converted to 60 cycle, some of our members' plants will be forced to close down because of the enormous cost of conversion. For example, two of our member companies estimate the cost of conversion at more than \$5 million each and, in their judgment, such a capital cost would not be justified. They would, therefore, be forced to close down their operations in the Niagara area.

Our group is seeking a guarantee that the existing 25 cycle service will be continued so long as there is a demand for this service by our members.

#### Size and Growth of our Load

On page 22, Professor Currie states:

"Since their demands are both continuous and growing, they add to the total demand and the size of the peak."

In the case of some of our larger members, these loads are not new and, in fact, have existed fairly steadily since about 1929. In some cases the loads have actually declined. Furthermore, our members have no plans to expand their high power consuming facilities. Reasonably priced power at the present levels is what is needed.

In fact, our members' loads provide the base on which other loads, such as domestic heating, build the peak.





## II - COMMENTS ON REPORT OF ONTARIO HYDRO - OCTOBER 1, 1962

The report by Ontario Hydro of October 1, 1962 consists of a rebuttal of the four main points raised by Professor Currie on pages 27 and 28 of his report of May 15, 1962 as well as rebutting requests previously made by Niagara Basic Power Users. In this section we comment upon some of the views expressed by Hydro and give our opinions thereon.

### REBUTTAL OF HYDRO'S POINTS

#### Determination of Costs

Hydro has always contended that it is not feasible to determine specific costs of its facilities. However, we point out that in a speech delivered to the Ontario-Quebec Section of the Electro-Chemical Society on February 6, 1962 in Toronto, a senior official of Ontario Hydro gave specific details of operating costs of the Hydro facilities throughout the Province. Included in the detailed costs which he described to the meeting were costs for the Niagara District which can be summarized as follows:

Operating costs, including operation, maintenance, fixed charges, etc.	2.1 mills per kwh
High voltage transmission costs covering a distance of 250 miles	<u>0.6</u> mills per kwh
	<u>2.7</u> mills per kwh

He gave the following figures for the overall average of the hydro facilities in the Province (excluding the Northwestern region):

Operating costs	2.76 mills
High voltage transmission costs	<u>0.60</u> mills
	<u>3.36</u> mills per kwh

THE UNIVERSITY OF CHICAGO

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It should be pointed out that these costs are based on a system load factor which is considerably lower than the operating load factor of Niagara Basic Power Users. This tends to increase the unit cost of power.

From this it can be seen that, using the Niagara figures, a sale of power at an average rate of 4 mills to Niagara District customers would still yield Ontario Hydro a handsome profit. Even taking the overall average costs as a guide, a price of 4 mills per kwh would still yield a profit of about 20 per cent. The average rate of 4 mills suggested here contrasts with our average rate of 4.7 mills. A reduction of 15 per cent from our existing rates would net 4 mills as suggested above.

#### Future Effect of Uniform Costing

The previous paragraph indicates that until recently Hydro was able to identify separately its cost of service. However, we fear that the practice of uniform costing now adopted by Hydro is fraught with future dangers which will arise because of their lack of knowledge of the cost of service to various types of consumers. In other words, using Hydro's newly adopted costing principles, how will they be in a position to know when a charge to a particular group of customers is equitable? Professor Currie expresses the same doubts in his report.

#### Further Effect of Uniform Rates

Hydro, having adopted a policy of uniform rates, has forsaken the policy of encouraging industry to have low cost power, and at the same time has adopted a policy of encouraging the public to use more electric power because it is more profitable for Hydro. This indicates to us Hydro's apparent lack of concern for the expansion of industry in the Province which is really the basis for a prosperous economy.



At a time when the Minister of Economics and Development is encouraging industry to expand and swell Canada's exports, it is difficult to understand why a separate agency of government is following a policy which, in effect, discourages such growth. The Ontario Government recently launched its Trade Crusade aimed at growth of exports and increased manufacturing in Ontario. These are commendable objectives, but we point out that the policy of Ontario Hydro leads in the opposite direction. Rather than supporting the Government's Trade Crusade, Ontario Hydro's policy and practices are helping to defeat it.

#### Inconsistent Policy Towards Transmission Costs

In the second paragraph on page 7 of the Hydro report, they refer to the fact that high voltage transmission costs are pooled whereas the costs of low voltage lines are assessed on the basis of kilowatt-miles. This appears to be an inconsistency in policy for which there is no ready explanation. As a matter of fact, as stated repeatedly including elsewhere in this report, we do not agree with the policy of pooling any costs to such a degree in establishing industrial power rates.

The principle of pooling costs may be quite sensible with respect to the small domestic customer and the small amount of revenue involved. But the effect of applying this principle to a large industrial user is an entirely different matter.

#### Comparison of Rates

The average charges to wholesale customers in 1961, listed on page 22 of Hydro's report, show rates to Niagara Basic Power Users as being the lowest. These rates are not comparable because they do not recognize the effect of load factor. In the case of Niagara Basic Power Users, the





load factors range from 80 per cent to 93 per cent, while the load factors of municipal utilities, rural operating areas, etc. are considerably lower. The rates, therefore, are not comparable.

POINTS RAISED IN PROFESSOR CURRIE'S REPORT  
WHICH HAVE BEEN IGNORED IN THE HYDRO REPORT

In its report, Hydro chose to deal only with the four major points summed up at the end of Professor Currie's report. The effect of this is that many worthwhile points made in the body of Professor Currie's report have not been answered by Hydro. Among these are the following:

(a) On page 18 of his report, Professor Currie recommended that the zoning principle should be adopted on the grounds of both elementary justice and cost. We believe that this is a very worthwhile recommendation and worthy of serious consideration. We are surprised that Hydro has made no comment on this suggestion.

(b) On page 14 of his report, Professor Currie makes the important point that the present policy of uniform rates constitutes a subsidy to new users who, in the absence of uniform rates, would have to pay more than they do. Hydro makes no attempt to answer this statement.

(c) Furthermore, on page 17, Professor Currie develops the conclusions that at some point uniformity in charges is no longer justified and he raises the question: "Has this point already been reached in the industrial charges of Hydro?" This question is left unanswered by Hydro.

(d) At the top of page 18, Professor Currie mentions Hydro's interpretation of the word "cost". In its report, Hydro makes no effort to answer this challenge or explain its position.





(e) In dealing with its justification for promoting the domestic use of electricity, Hydro has ignored completely the fact that there is a shortage of power in the Province. It makes no attempt to reconcile these two conflicting facts.

POINTS IN PROFESSOR CURRIE'S REPORT  
WHICH WERE MISINTERPRETED BY HYDRO

We believe there are statements in Hydro's report which represent interpretations of Professor Currie's report with which we cannot agree. Examples are quoted below:

(a) On page 1 of Hydro's report, they state "he appears to conclude that any long term rate would have to be designed to meet average cost conditions ...". We believe that Hydro is putting words into Professor Currie's mouth which are not really there. We can find no statement in Professor Currie's report which indicates he has reached such a conclusion.

(b) On page 4 of the Hydro report, they state "Professor Currie concurs with the necessity of pooling generation costs ...". Once again, we cannot find any place in Professor Currie's report where he makes the wholehearted statement that he agrees with this idea. This is another example of Hydro using Professor Currie's words in its own way.











Comments to:

THE ONTARIO ECONOMIC COUNCIL  
regarding "Electric Power"

By

Burton F. Bowman, President,  
Cyanamid of Canada Limited

Friday, February 1, 1963





CYANAMID OF CANADA LIMITED has eight manufacturing centers in Canada totalling over \$95 million in investment. Five of these manufacturing centers are in Ontario -- of which three are adversely affected by power cost.

Let me emphasize at the outset that we -- that is, both the NIAGARA BASIC POWER USERS and CYANAMID OF CANADA -- are not here to become involved in a technical discussion of power. Frankly, I am no expert in the professional aspects of power matters. My presence here is as a businessman who knows what can make a business succeed, and what can slow down, impair, and finally bring to a halt a business activity. CYANAMID is here to discuss and to challenge the Ontario Hydro power policy, which fails to recognize industrial power necessities.

Ontario Hydro can -- and has -- and does -- go to great lengths to justify its position. Its members can continue to assert how right they are, yet simultaneously those who are charged with guiding the growth of Ontario may see exactly the opposite take place.

Let me trace again what is happening.

We mine limestone at Beachville, take it to Niagara Falls where carbide is produced, and then convert it to calcium cyanamid. This is moved in bulk to Welland, where dicyandiamide is manufactured. Dicyandiamide is commonly referred to as "Dicy".



Dicy is used to make melamine, one of the world's important chemicals. There is essentially no market for Dicy in Canada, and a very small market for melamine. We therefore ship most of the Dicy to U. S. plants where it is converted to melamine. This is a world market product and 25% of the Niagara Falls cost of this product is power. It competes in international markets with melamine where power is virtually no cost factor.

Power cost relief in Canada is imperative.

When we speak of power cost relief for industry in the Niagara area we are speaking of relief for employment, production, and exports, as well as benefits to secondary industry--all of which will be unfavourably affected if power cost relief is not forthcoming immediately.

Speaking for CYANAMID OF CANADA LIMITED, I can say that during the 10-year period, 1950-1960, our power charges were almost doubled as a result of the power rate equalization policy introduced by Ontario Hydro Electric Power Commission. Although CYANAMID OF CANADA follows a constant and effective program of cost reduction, it is insufficient to offset increases in power costs.

Power cost as a factor of production at the three major plants of CYANAMID OF CANADA in the Province of Ontario is jeopardizing the Company's competitive position. These plants (Niagara, Welland and Beachville) are interdependent on one another in the production of the Company's principal product--Dicy. American Cyanamid's present U. S. melamine manufacturing process, based on Canadian Dicy, is threatened by a new and substantially less





costly process already in production in the United States, and planned for Japan. This new production capacity will capture CYANAMID OF CANADA's Dicy-for-melamine market and deprive Ontario of one of its major industries, deprive Niagara of its major employer, and deprive Canada of significant export sales-- unless the critical cost situation is resolved without delay.

Despite rising power costs, as depicted in Exhibit 1, CYANAMID, by concerted effort over the last ten years, has been successful in holding the line on product cost by reductions in other areas. Improved technology and efficiencies, together with replacement of more costly raw material with cheaper substitutes, and increased volume by sale of by-products and intermediates, has made this possible. Exhibit 2 clearly indicates the trend of increased power costs versus decreased raw material costs. Further advances in reducing costs by such means can only be achieved by large capital expenditures for new equipment and process knowledge. Such costs are not warranted in the face of rising power costs, and lack of security of long-term contracts.

The information contained in Exhibit 3 has been compiled to demonstrate the size of the CYANAMID Dicy Complex, its dependency on low cost electric power to continue operations, and the adverse effects on the economy of the municipalities involved if it were to cease operations.

Let me cite for you in detail the losses that would follow directly on the shut-down of the Limestone-Cyanamid-Dicyandiamide facilities:



(a)	Lay-off of Cyanamid Employees	1,000 men
(b)	Loss of Cyanamid Payroll	\$ 4,750,000
(c)	Lay-off of Indirect Personnel	1,650 men
(d)	Loss of Indirect Payroll	\$ 7,000,000
(e)	Losses in Local Purchases of Goods & Services	\$ 500,000
(f)	Losses in City and Township Taxes	\$ 250,000
(g)	Loss of Revenue to Hydro	\$ 3,000,000
(h)	Loss of Purchase of Raw Materials and Supplies	\$ 1,500,000
(i)	Loss of Freight Revenue to Rail- road & Trucking	\$ 2,000,000
(j)	Loss of Export Revenue	\$15,000,000

Cost of electrical power, our greatest and most critical item, will be the foremost factor in determining the future of CYANAMID OF CANADA in Ontario. CYANAMID must have long-term power contracts (at least 10-year) at realistic rates in order to justify the further necessary extensive capital investment required to maintain the Company's capacity to meet competition.

When we take limestone out of Canadian soil and up-grade it into one of Canada's leading exports (and in so doing employ hundreds of people) we are properly utilizing a Canadian asset. The same is true when we make CO<sub>2</sub> for Dicy at Welland out of natural gas. This is all in danger of being stopped.





I have stated publicly that CYANAMID OF CANADA will make no more capital commitments in Ontario where power is a cost factor, unless we get power relief. This is our position despite the fact that we are now constructing a multi-million-dollar complex for melamine and moulding compounds at our Niagara and Welland plants. On October 31st I told Mr. Robarts that we were doing this in an attempt to support the development of at least some melamine market in Canada in order to reduce in some small measure the impact of the loss of other outlets. I also told him we were doing it on the assumption that the Government of Ontario would recognize our need for power relief and be instrumental in seeing that we were offered power at reasonable costs on a long term basis.

I have predicted what will happen. Let me go further and tell you what already has happened. The head of our principal outlet for Dicy has written me as follows:

(Read Francisco Letter)

CYANAMID OF CANADA LIMITED does not wish to discontinue the operations of its plants, nor any section or part of any of its plants-- if this can be avoided. Rather CYANAMID wishes to expand and in the years ahead continue to be a contributor to the prosperity of Ontario and the nation, but our decision will be based almost entirely on cost of power in Ontario.



# INTEROFFICE CORRESPONDENCE

Hartford, Conn.

January 23, 1961

OFFICE

DATE

Hartford

Mr. E. F. Brown

COPY TO Mr. D. J. O'Connor, Jr. NA  
Mr. G. W. Russell HA

ME/AMC

A recent review of our melamine business has caused mounting concern over our competitive position in the near future. A reduction in costs is not only desirable but necessary to hold the line against increasing competition from domestic and foreign sources. Efforts to reduce costs must take raw materials, including dicy, into account. I want to call your attention to your circumstances which contribute to our concern.

1 - Allied Chemical's twenty million pound urea to melamine plant is now on stream. As you know, the use of urea in place of dicy as a raw material should result in substantially cheaper melamine. Allied's entry in the melamine field will substantially reduce our melamine requirements, with the effect of reducing our dicy requirements by ten thousand tons per year.

2 - In addition to the loss of up to twenty million pounds per year of melamine to Allied's plant, imports from Japan are increasing. Imports from Japan in 1959 were more than double the 1961 level and three times the 1960 level. The pressure of declining Japanese prices





January 23, 1963

is continuing and we expect to lose additional business to Japanese imports during 1963. Although all Japanese melamine is now manufactured from dicy, lower costs permit them to sell in the United States' market at prices substantially below our prices.

- 3 - A Japanese firm, Nissan Chemical, has announced that they are constructing a ten million pound a year urea to melamine plant with completion expected in mid-1964. Consideration of the low value of the raw material urea in Japan substantiate Japanese predictions of depression of the already low Japanese prices.
- 4 - The availability of good quality low price Japanese dicy has caused erosion of our selling price for dicy and in spite of our efforts continuing price pressure has led to a three-fold increase in Japanese imports of dicy over 1960.

Our ability to maintain our current position in this important segment of our business will depend heavily on the success of cost improvement programs. The support which we receive from your Canadian manufacturing operations will be most helpful in maintaining a competitive position in today's market.

L. J. Francisco











